Marketing 100

Lecture 10: Distribution and Pricing

ADMINISTRATIVE

Course Agenda

1. Introduction and Ethics
2. Marketing Process
3. Internal and External Environments
4. Consumer Behavior
5. Segmentation and Targeting
6. Supervised Work
7. Positioning and Differentiation
8. Offering and Innovation
9. Oral Evaluation
10. Price and Distribution
11. Relational Selling and Market Communication
12. Revisions

ADMINISTRATIVE

Administration

- **Part 2** of your assignment is due at the beginning of class 12 (Dec. 3)
  - You will
    - define the target and positioning of your product in the Canadian market
    - make recommendations about the 4Ps of marketing for your Kickstarter project
  - 4 pages max.
  - ChatGPT usage: You will begin this assignment by giving a prompt to the ChatGPT chatbot. Put screenshots in Appendix!

ADMINISTRATIVE

Administration: Team Assignment #2

1. Summary of the key elements of your prior work (e.g., what are the marketing issues, what are your marketing objectives, etc.)

    a) Not graded, so don't worry too much about this. It's a reminder for me and gives context for your strategic and tactical recommendations

2. Portrait of the target market and justification (12 points)

    b) Portrait of your typical consumer (one or two sentences describing the target) (4')

    c) Segmentation variables identification (*You will be penalized if you use only socio-demographic variables. Make sure that all the segmentation variables you select are indicated in the portrait.*) (4')

    d) Choice of segment based on strategic profitability considerations (4')

ADMINISTRATIVE

Administration: Team Assignment #2

3. Positioning statement (6 points)

- Make sure your statement takes into account the key findings of your market analysis (including the competition) and your target market. (4’)
- You must also prove that your positioning is **relevant**. (2’)

4. Three tactical recommendations (12 points)

- propose three (3) priority actions from the marketing mix (4’ each)
- Justification
- not to mention the steps your product is currently taking, but rather to suggest ways of reaching the chosen target presented in the second assignment
- **My expectation**: Tactical recommendations are very realistic and reflects the issues in the market and the company. Creativity is exceptional, with an innovative and creative tactic that stands out. Recommendations are perfectly aligned with the marketing target, convincingly reinforce the marketing positioning, and is in perfect harmony with all the marketing objectives.

This Week

Part 1: Pricing

- Part 1A: Factors Influence Pricing Strategy Decisions
- Part 1B: Pricing Objectives
- Part 1C: Pricing Strategies

Part 2 : Distribution

- Part 2A: Distribution Intermediaries
- Part 2B: Distribution Channels
- Part 2C: Selecting a Distribution Network
- Part 2D: Multi-Channel Distribution with an Omni-Channel Strategy

Part 3: Case Discussion

Part 1: Pricing

Price

Price is what a customer gives up or is willing to sacrifice to obtain a set of benefits.

We most often measure price in **money** ($), but don’t forget that it also includes…

Time

The time invested to research, obtain (e.g., wait in line) & consume (e.g., learning curve) the product

Psychological Cost

The psychological costs of consumption (e.g., taking a risk on a new product)

Part 1A: Factors Influence Pricing Strategy Decisions

(i.e., what should I consider when pricing?)

If you lived in a bubble, and all you had to think about was your company, you would price based on the following….

Your Company
How much did it cost me to make this product?
How often do people buy this product?
What do I charge for the things I already sell?

Competition

- How are competitors pricing similar products?
- Are there substitutes?
- How will competitors respond to our price?

Consumers

What are consumers willing to pay for our product?

Distributors

Is the retailer or wholesaler pressuring us to adopt a price?

Your Company

Economic Environment

In a good economy, consumers are generally more accepting of price increases than in a bad economy. When the economy is bad, low-cost businesses do well

Legal Environment

In some markets (e.g., energy, drug prices) the government regulates prices.

Part 1B: Pricing Objectives

Reviewing what you already know about pricing

What are the pros and cons of pricing something **low**?

Pros	Cons

What are the pros and cons of pricing something **high**?

Pros	Cons

Pricing Objectives 1

Profit-oriented

- Make an acceptably high profit to meet company goals (e.g., paying the small business owner; satisfying shareholders)
- Often, companies set a “target return” (for every $1 I invest in this product, how much do I want to make?)

Competition-oriented

- Focuses on capturing *market share* (often through lower prices)
- Lower short-term profits in favor of higher long-term profits

Sales-oriented

- Focuses on selling a certain number of product units
- Often used as a short-term strategy when companies over-produce a good.
- Profit- or competition-oriented strategies make more sense in the long-term

Pricing Objectives 2

Customer perception-related objectives

- How do the consumers perceive the price
- Often higher prices signals exclusivity and luxury, while lower signals accessibility

Distribution Intermediary-related objectives

- The demands of distribution intermediaries (e.g., Walmart) can drastically affect the pricing for many producers

Uber's Pricing Problem

I lived in Boston in 2016 and commuted 5km to work everyday.

The train cost $1.70 and took 27 min

Uber

An Uber Pool cost $2.50 and took 15 min

What was the pricing objective?

Why was Uber so cheap?

Uber’s Pricing Problem
What is the pricing objective?

	2016	2023
Price of the Ride	$2.50	$11.89
Paying the driver*	$0.86 / km = $4.30	$0.38 / km = $1.9
Uber’s Profit*	-$1.80	$9.99

Uber was not profitable when it launched. Uber’s profits at the end of 2017 were -$4 billion dollars (i.e., they lost $4 billion). But, they made a lot of money from venture capital.

Now, Uber’s venture capital is running out. So, they are raising prices and paying drivers less to try to become profitable

Quick Recap…

In 2016, Uber’s pricing strategy was to gain market share by pricing very low. This is a…

A. Profit-oriented objective

B. Competition-oriented objective

C. Sales-related objective

D. Distribution intermediary-related objective

Quick Recap…

In 2023, Uber’s venture capital support started to run out, and they had to increase prices. This represents a transition from a _____ objective to a _____ objective.

A. (A) Competition-oriented (B) Profit-oriented

B. (A) Profit-oriented (B) Competition-oriented

C. (A) Competition-oriented (B) Sales-oriented

D. (A) Profit-oriented (B) Customer perception-oriented

Question

Costco loses about $30-40 million every year on their rotisserie chickens. The chickens are priced at $4.99, much lower than Costco’s cost to produce them.

Costco’s CFO says the company is willing to lose this money to keep consumers happy, and to inspire them to see Costco as affordable.

In pricing these chickens, Costco is adopting a…

A. Competition-oriented strategy

B. Profit-oriented strategy

C. Distribution intermediary-oriented strategy

D. Customer perception-oriented strategy

Part 1C: Pricing Strategies

Competition-based Pricing Strategies

The following are the most commonly-used pricing strategies in **markets with a lot of competition:**

Price Leadership

A brand adjusts their price and assumes the competition will do the same (often used by market leaders)

Competitive Parity

A brand sells at the same price as the market average or the market leader

Low-Cost Strategy

Always offering the lowest price in the market (only viable for businesses that have a competitive advantage

Customer-based Pricing Strategies

The following is the most commonly-used pricing strategy in markets where **consumers' image of the product** really matters**:**

Prestige Pricing

(a.k.a. Quality signaling pricing)

- The process of setting a price that projects the desired image of the product to consumers
- Because we often think high prices imply quality, this usually involves setting high prices for high-quality goods
- Used for goods where quality cannot be judged just by looking at the product (e.g., skincare, technology)

Cost-based Pricing Strategies

The following is the most commonly-used pricing strategy in markets where the **businesses' costs** really matter:

Cost-Plus Pricing

- Setting a price that lets the company achieve a (small, sustainable) profit margin
- Ignores info about consumers and competition (or is used when managers don't have this information)

Pricing Strategies For *A Product Line*

Pricing Strategies For ***A Product Line***

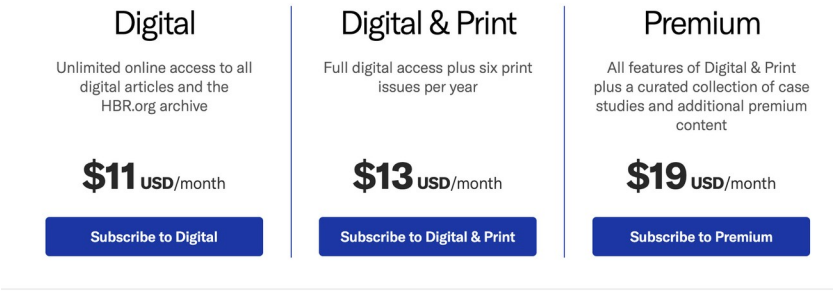
The following are the most commonly-used pricing strategies in businesses pricing an **entire product line**:

Complementary

Selling the product at a low price and complementary products at a high price (e.g., printers and ink; Keurig & K-cups)

Price Bundling

Placing a product within a group of items. The group sells for a lower price than if the consumer bought each item (e.g., meal combos; shampoo + conditioner sets)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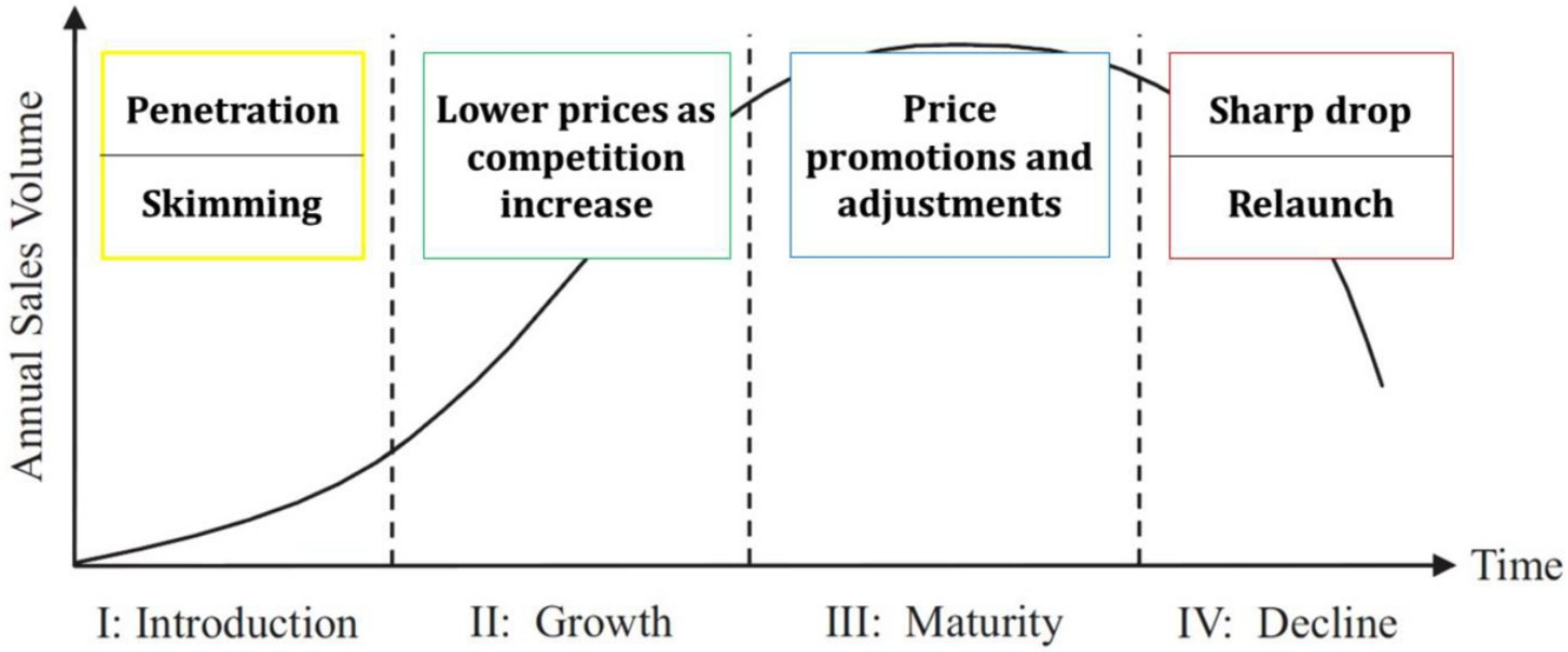
Customer Value

Pricing a product competitively, but offering fewer options than other products in the line (e.g., economy plane tickets, “starter” cars)

Pricing Strategies
Through Product Lifecycle



Pricing Strategies: Initiation Phase

There are two types of **“at launch”** pricing strategies. This choice drastically alters the future of the brand.

Skimming strategy

Setting a high initial price that is then lowered across product lifecycle

Why? To establish an image of quality and not prompt so much demand that production can’t keep up.
Who? Effective for highly differentiated products that some people don’t mind paying more for

Penetration strategy

Setting an initial low price intended to minimize the competition. Note that if you can take advantage of economies of scale, you don’t need to raise price over time

Why? To quickly capture market share from the competition .
Who? A product that is similar to the competition, in a market that is sensitive to price.

Pricing Strategies: Maturity & Decline Phase

Price Reduction Strategy

During the growth & maturity phase of the product lifecycle, competition usually gets more intense. Companies **may have to lower price** to compete, or to get through “slow seasons.”

When the product is close to its death, the price is usually lowest. This is when the company is trying to liquidate its remaining stock.

WooClap

The following graph represents the price of the Playstation 5 (PS5) since launch in 2020 to 2023* What type of pricing strategy does this best reflect?

A. Price skimming
B. Penetration
C. Price bundling
D. Consumer value pricing

*on third party retailers

In-class Exercise

- Work with your teammates or individually to indicate the right pricing strategy for each example
- Please see the instructions in document «S10-Pricing Strategy Exercise_F24» under Course Outline Session 10 on ZoneCours
- You have **10 minutes**

Part 2: Distribution

Distribution

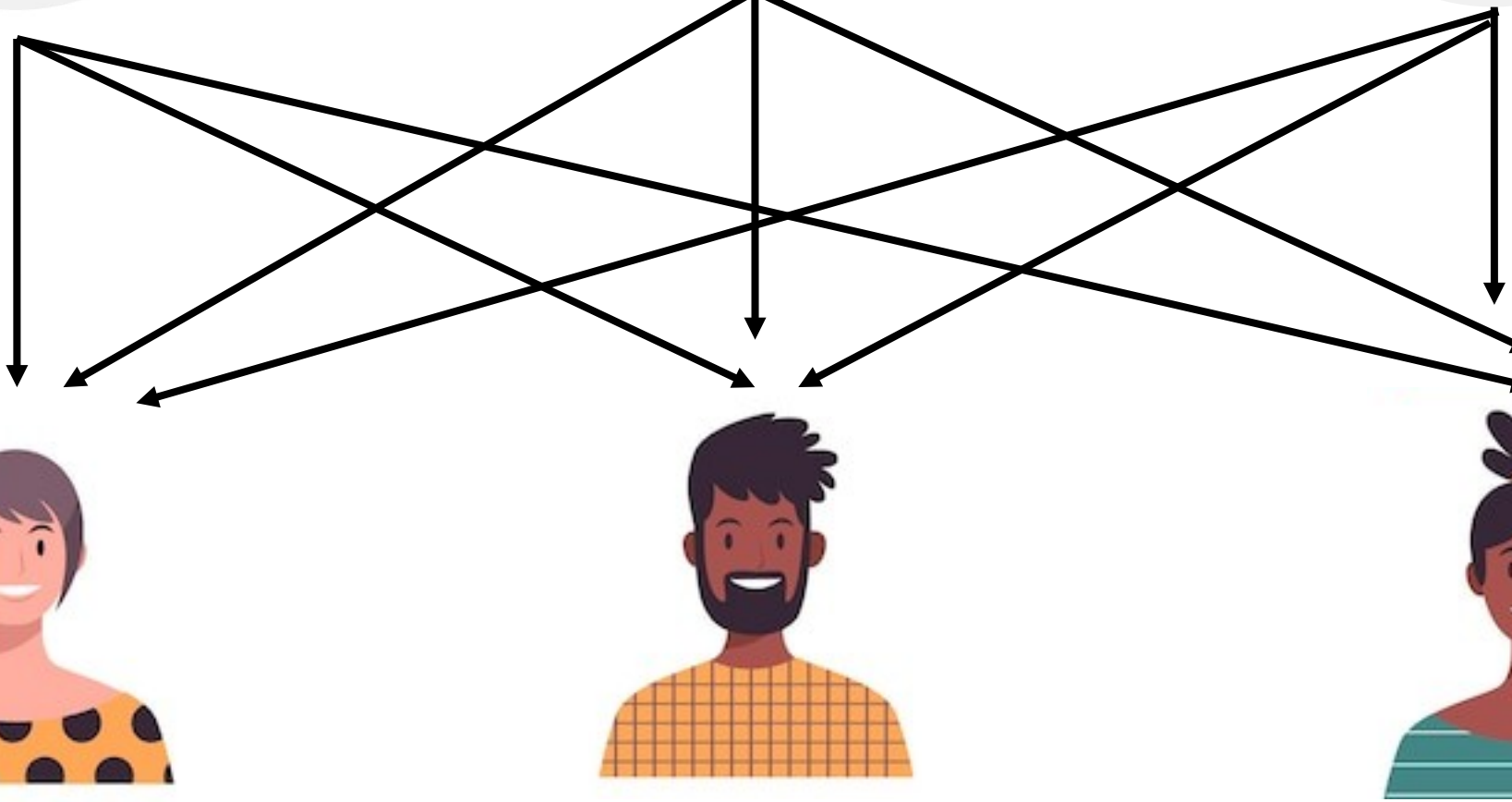
When considering distribution, ask yourself:

How can I make my product available to potential consumers **when**, **where** (and in **what quantity**) they prefer?

Distribution

This decision is important, **because it can inform your targeting and positioning**:

Part 2A: Distribution Intermediaries



Distribution Intermediary
(e.g., IGA)

What is a distribution intermediary?

A distribution intermediary is any individual or company that can sell a brand’s product to its end user

n this example, Canadian tire is the distribution intermediary for Estwing hammers

Why should I use a distribution intermediary?

Why should I use a distribution intermediary?

For producers…

For customers…

Why should I use a distribution intermediary

In more detail, distribution intermediaries can help manufacturers with…

Other functions listed in your textbook include: financing (helping consumers pay for goods), & title transfer

What types of distribution intermediaries are there?

Types of Intermediaries

Traders

Buy merchandise that they offer to their own consumers

Agents

Outsourcing an agency to perform your sales function (think actor’s or writer’s agents)

Retailers

A merchant whose main activity is making direct sales to customers (online or in-store)

Wholesalers

A merchant buys a lot of merchandise from producers and resells it to retailers (or industrial users)

WooClap Review Questions

WooClap

Which of the following is ***not*** a distribution intermediary?

- A grocery store
- Amazon
- A restaurant
- Etsy
- A department store, like The Bay

WooClap

A farmer, **Jake**, produces eggs. He hires a person, **Miranda**, to find stores that are willing to buy his eggs. Miranda convinces **IGA** to carry Jake’s eggs in their Québec stores.

In this example…

- Jake and Miranda are both the manufacturers, IGA is the wholesaler
- Jake is the manufacturer, Miranda is the agent, and IGA is the retailer
- Jake is the manufacturer, Miranda is the wholesaler, and IGA is the retailer
- Jake, Miranda and IGA are all traders

Part 2B: Distribution Channels

Distribution Channel

Definition: A network of interdependent organizations engaged in a process aimed at making a product or service available for use or for consumption

Think: The steps a product goes through to get from the manufacturer to you (the customer)

Direct Channel

Manufacturer →

→ PELOTON → Consumer

Indirect Channel -Short

Manufacturer → Retailer → Consumer

Indirect Channel -Long

Manufacturer → Wholesaler → Retailer → Consumer

WooClap Review Questions

WooClap

A farmer, **Jake**, produces eggs. He sells the eggs himself at a farm-stand at the end of his driveway.

This is a…

- Direct distribution channel
- Short indirect distribution channel
- Long indirect distribution channel
- Ultralong indirect distribution channel

WooClap

A farmer, **Jake**, produces eggs. He hires a person, **Miranda**, to find wholesalers that are willing to buy his eggs. Miranda convinces **Redmond Oeuf** to wholesale the eggs. Redmond Oeuf sells to **IGA and Metro,** which will carry Jake’s eggs in their Québec stores.

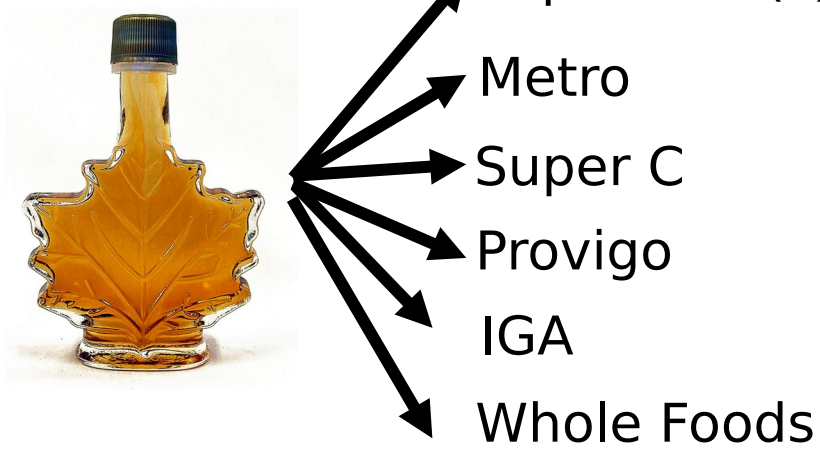
This is a…

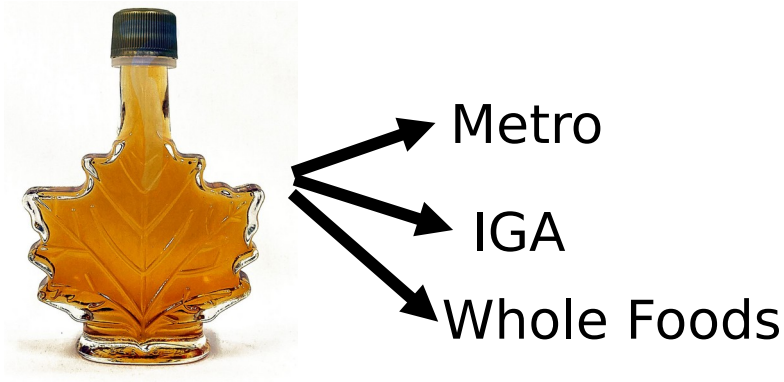
- Direct distribution channel
- Short indirect distribution channel
- Long indirect distribution channel
- Ultralong indirect distribution channel

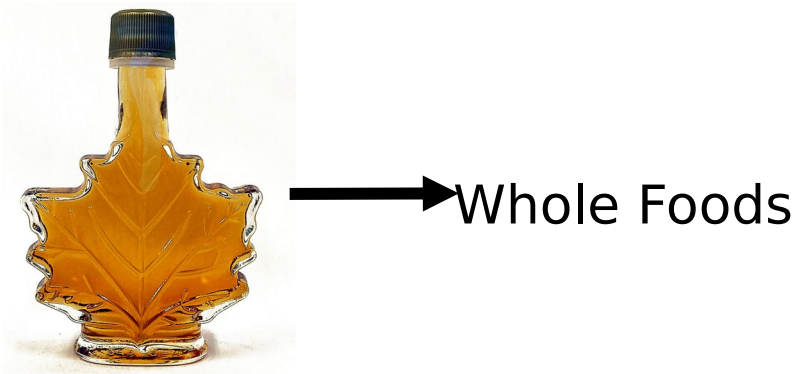
Part 2C: Selecting a Distribution Network

Determining the Intensity of Distribution

Intensity of Distribution: The number of intermediaries used at each level of a channel







Intensive Distribution
Coverage of all appropriate retailers/ wholesalers. Making the product as easily

Selective Distribution
Coverage of only the retailers/wholesalers that meet critical criteria (& perhaps are willing to

Exclusive Distribution A product is only available at one point-of-sale in a geographic area. Often used for high-end

Choosing Type of Channel & Intermediary

Distribution intermediaries are chosen based on six criteria:

1. **Cost & Profitability**: How much do we have to pay them? How much can they sell for us?
2. **Control of the Network**: Can we make them comply with our marketing policy? Can we make sure our product is priced similarly across retailers?
3. **Image of the Intermediaries:** Do consumers perceive this intermediary as competent (e.g., do consumers like/trust this store?)
4. **Sharing of Functions**: Who plays what role in distribution? Do their competencies make up for our weaknesses?

Choosing Type of Channel & Intermediary

Distribution intermediaries are chosen based on six criteria:

5. **Compatibility with the Existing Network:** Will adopting this new channel (or intermediary) upset our existing distribution network, either reputationally or legally?
6. **Flexibility of the Network**: We prefer if intermediaries (especially ones we haven’t worked with before) do not lock us into long or exclusive contracts.

Part 2D: Multi-Channel Distribution with an Omni-Channel Strategy

Multi-Channel Distribution

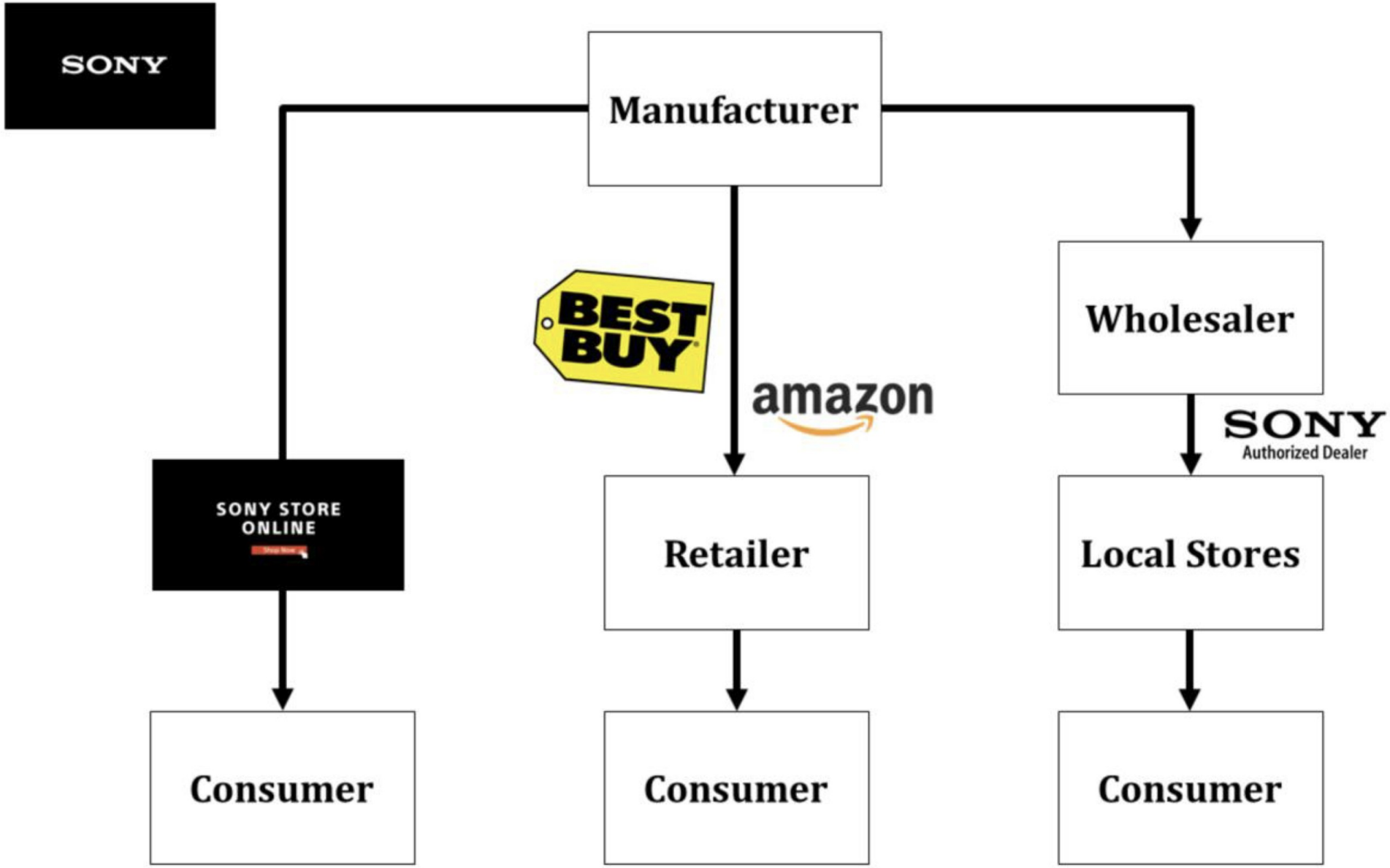
Direct distribution (in-person & online)

Indirect distribution (online)

Indirect distribution (in-person)

e-away: Most companies will combine several distribution channels to reach different target mar

Multi-Channel Distribution



Conflicts Linked to Multi-Channel Distribution

Channel Conflict: A situation in which channel members perceive that other members' behaviour is detrimental to them.

There are 3 major sources of channel conflict:

1. **Incompatibility of Objectives:** When one channel members objectives are incompatible with another's (e.g., a manufacturer wanting rapid growth, so pricing low + a retailer who wants larger profit margins)
2. **Poorly Defined Roles and Rights**: If several channels compete for the same customers (e.g., Apple selling direct-to-consumer and through channel partners)
3. **Differences in Perception**: When channel partners perceive the same situation differently (e.g., a retailer who consistently sees the problems consumers face with the product & a manufacturer who sees nothing wrong)

Using an Omni-Channel Strategy to Resolve Conflict(s)

Omni-Channel Marketing: Making sure that consumers' experience of your brand is consistent across all touchpoints (e.g., direct distribution, retailers, your website, your socials)

How does this help resolve conflict?

- In an omni-channel strategy, the focus is on the customer experience. Partners are often incentivized (i.e., paid) to make sure that the customer experience is consistent.
- Data on customer experience and needs is shared across all channel partners
- A focus on avoiding cannibalization, perhaps by making certain products only available through certain channel partners

Case Discussion: Fireroasted Coffee

- Work with your teammates to answer the questions following the short case study
- Please find the case on ZoneCours--Course Outline--Session 10
  - “S10-Fire Roasted Coffee pricing and distribution”
- You have 15 minutes